

## Government Finance

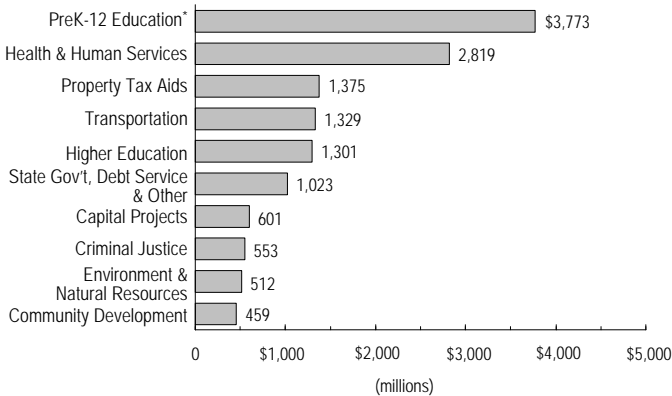
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Note: The FY 1999 data are from the Department of Finance, November 1998 forecast. Other data are from the Department of Revenue, unless otherwise noted.



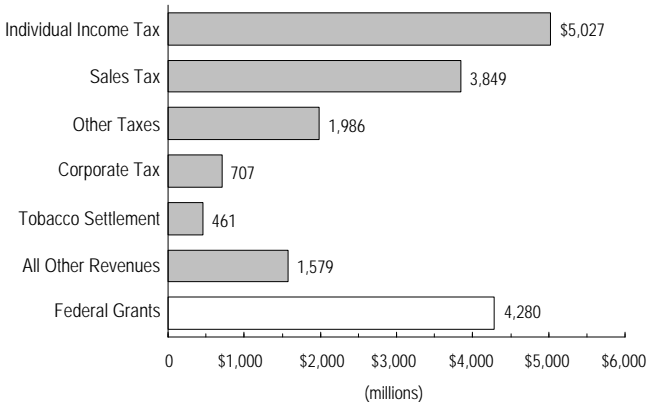
## TOTAL STATE SPENDING AND REVENUES, ALL FUNDS

### Spending, Excluding Federal Funds (\$13,284 million in FY 1999)



\* Does not include \$90.2 million in property tax recognition shift; includes family and early childhood education spending

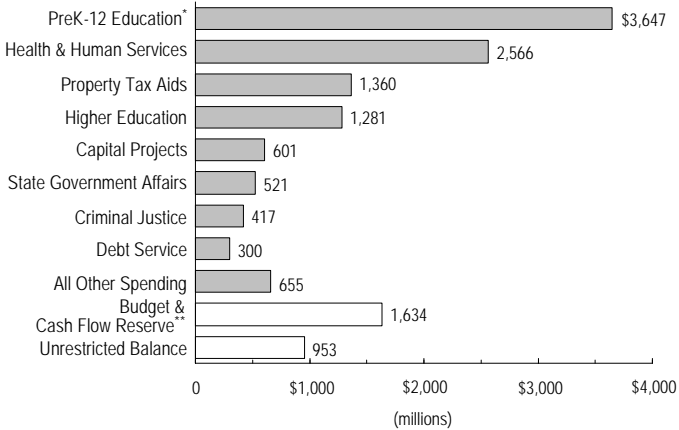
### Revenues (\$13,609 million, state source in FY 1999 \$4,280 million, federal grants in FY 1999)



The amount shown for the individual income tax is net of the 1999 property tax rebate. "All other revenues" includes investment income, MinnesotaCare premiums, and user fees such as hunting and fishing licenses. In addition to the \$13,609 million in state revenues, the state carried forward a balance of \$4,380 million to FY 1999.

Source: Consolidated Fund Statement and Fund Balance Analysis, Department of Finance

## State Spending, General Fund Only (\$11,347 million in FY 1999)

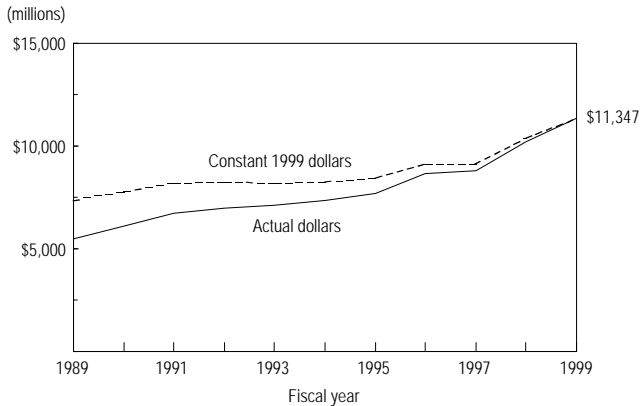


Source: Fund Balance Analysis, Department of Finance

\* Does not include \$90.2 million property tax recognition shift; includes family and early childhood education spending

\*\* Includes cash flow account, budget reserve, property tax reserve, tax reform and reduction account, and other dedicated reserves

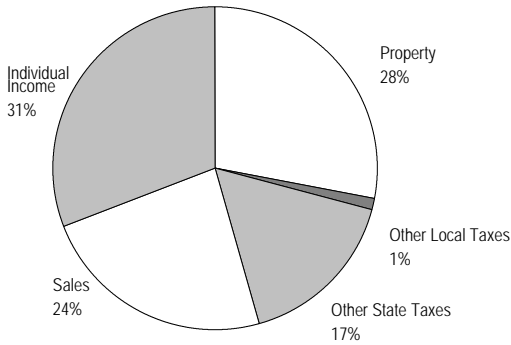
## General Fund Spending (\$11,347 million in FY 1999)



Source: Comprehensive Annual Financial Report, Department of Finance

# TAXES

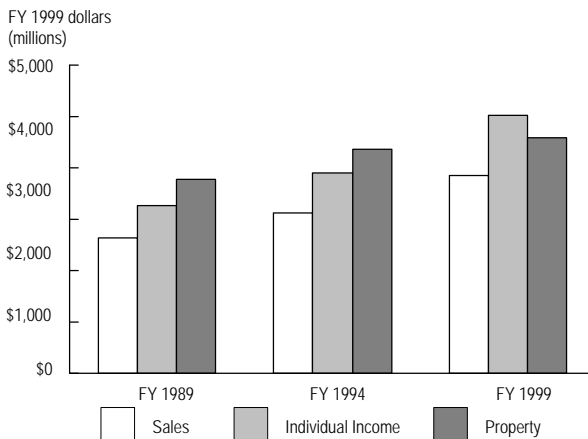
## State and Local Taxes (\$16,314 million in FY 1999)



## Minnesota State Tax Collections (\$11,569 million in FY 1999)

Individual Income	\$5,027	MNCare Taxes	\$152
Sales	3,849	Mortgage & Deed	129
Corporate	707	Gambling	63
Highway Fuels	591	Alcoholic Beverages	58
Motor Vehicle License	562	Estate	50
Tobacco	190	Other	25
Insurance	166		

## Income, Sales, and Property Taxes



*[See House Research publication "Major State Aids & Taxes: A Comparative Analysis," February 1999.]*

## Individual Income Tax

The Minnesota individual income tax uses federal taxable income (income after federal deductions and exemptions) as its starting point.

### 1999 Tax Rates and Brackets

Rate	Income		
	Married Joint	Single	Head of Household
6%	\$0 to 25,220	\$0 to 17,250	\$0 to 21,240
8%	25,221 to 100,210	17,251 to 56,680	21,241 to 85,350
8.5%	Over 100,210	Over 56,680	Over 85,350

Note: Head of household filers are single filers with dependents.

Income brackets for each rate are adjusted annually for inflation.

Refundable credits available for:

#### **Dependent care expenses** **\$11 million in FY 1999**

- up to \$720 per dependent for up to two dependents available for filers with income up to \$31,380

#### **Working family credit** **\$75 million in FY 1999**

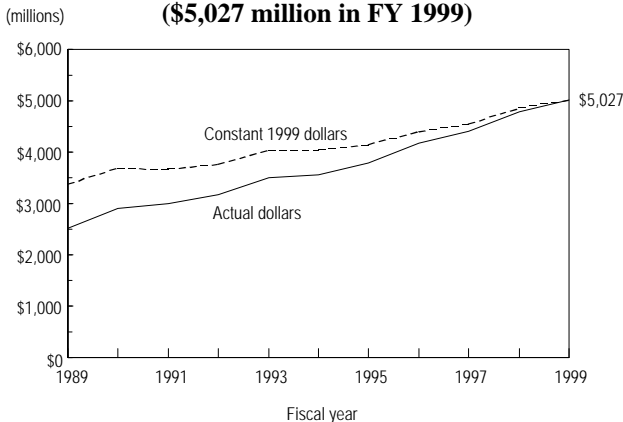
- equals a percentage of earned income
- maximum credit of \$1,145

#### **Property tax rebate** **\$461 million in FY 1999**

#### **Education credit** **\$38.5 million in FY 1999**

*[See House Research publications "Income Tax Credits for Public and Nonpublic Education in Minnesota," December 1997 and "Minnesota's Public School Fee Law and Education Tax Credit and Deduction," December 1998.]*

### Individual Income Tax Revenues (\$5,027 million in FY 1999)



## Sales Tax

The sales tax is an ad valorem tax imposed on the retail (final) sales of most goods and some services.

### General Sales and Use Tax Rates for FY 1999

• General and Motor Vehicle	6.5%
• Farm and Logging Machinery*	2.0%
• Liquor and Beer Sales	9.0%
• Motor Vehicle Rentals	12.7%

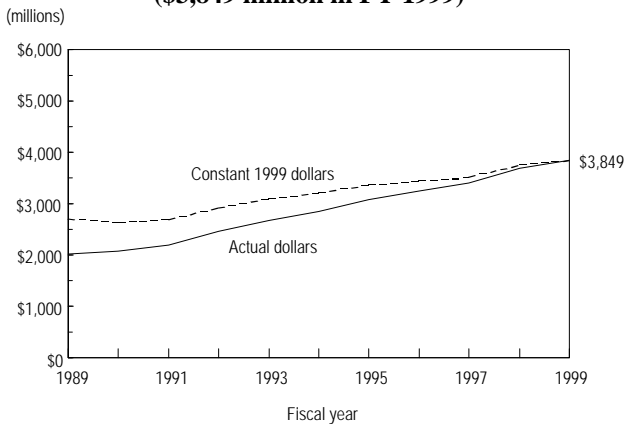
\* This rate is reduced to 1.0% on July 1, 1999, and the sales are exempt beginning July 1, 2000. See the local government revenues page for local sales and local lodging taxes.

### Major Exemptions

- Clothing
- Most food products
- Prescription drugs and some other medicines
- Most business and personal services
- Gasoline (subject to the gas tax)
- Farm machinery repair parts
- Capital equipment for manufacturing industries\*
- Industrial special tooling

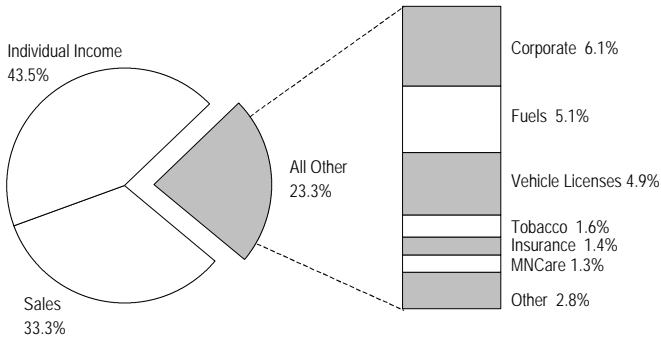
\* Businesses must pay the sales tax on capital equipment at the time of purchase and then apply for a refund from the state.

### Sales Tax Revenues (\$3,849 million in FY 1999)



## Other State Taxes

Taxes, other than the income and sales taxes, yield a little under 25% of state tax revenues. Many of these taxes are minor revenue sources. Taxes that yield an estimated \$100 million or more for FY 1999 are described following the graph.



### Corporate Franchise (Income) Tax

- 9.8% of federal taxable income after numerous adjustments
- Multi-state corporations apportion income under a three-factor formula using Minnesota shares of property, payroll, and sales; the formula weights sales at 70% and property and payroll at 15% each
- Two minimum taxes apply:
  - 5.8% of federal alternative minimum taxable income, and
  - a flat fee based on Minnesota property, payroll, and sales
- Most volatile revenue source of any major state tax

### Motor Fuels Tax

- \$.20/gallon
- Dedicated by constitution to the highway user trust fund

### Motor Vehicle Registration (License) Tax

- Tax on passenger vehicles is 1.25% of the value, plus a minimum fee of \$10 (total tax cannot be less than \$35)
- Trucks, buses, and other vehicles pay based on weight and age
- Dedicated by constitution to the highway user trust fund



## Cigarette and Tobacco Products Tax

- \$.48/pack of 20 cigarettes; 35% of wholesale price of tobacco products
- Revenues pay debt service on special state general obligation bonds; \$.02/pack goes to Minnesota Future Resources Fund; and the rest to general fund

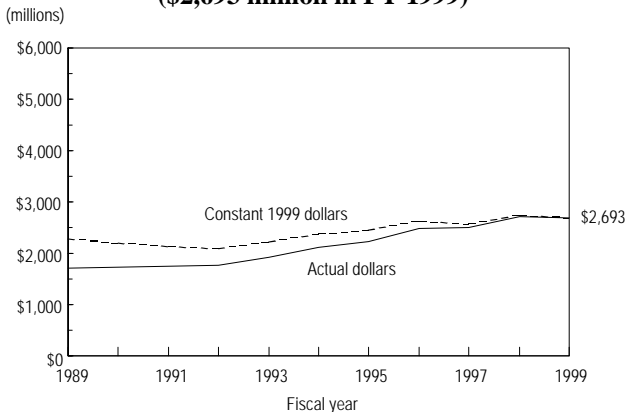
## Insurance Premiums Tax

- Basic tax is 2% of insurance premiums
- Mutual property-casualty insurers with 12/31/89 assets of no more than \$5 million, 0.5% rate; \$1.6 billion, 1.26% rate
- HMOs and nonprofit health insurance companies (e.g., Blue Cross) are exempt, if they have met cost containment goals. Tax is imposed at a rate up to 1% for a calendar year to fund MinnesotaCare, if Commissioner of Finance finds there will be a deficit in health care access fund.
- A "retaliatory tax" applies to a foreign company, if its home state taxes similar Minnesota companies more heavily. Foreign company pays as if its home state taxes applied to its Minnesota business.

## MinnesotaCare Taxes

- 1.5% of gross revenues tax on hospitals, surgical centers, health care providers, and wholesale drug distributors; the rate may increase to 2% after January 1, 2000, if the Commissioner of Finance determines there will be a structural deficit in the health care access fund
- Exemptions for Medicare, Medical Assistance, General Assistance Medical Care, and MinnesotaCare revenues
- Revenues pay for MinnesotaCare program

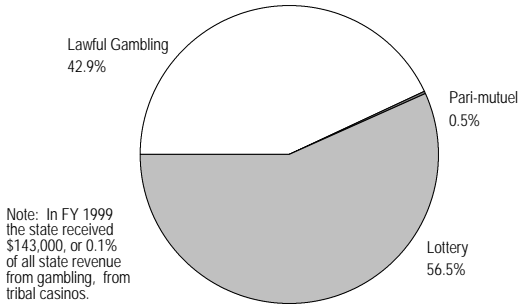
## Other State Tax Revenue (\$2,693 million in FY 1999)



## Gambling Revenue

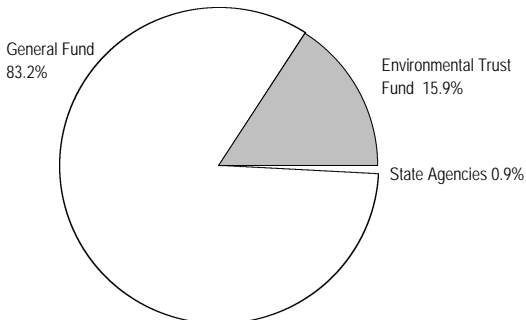
The state receives revenues from three state-sanctioned forms of gambling: pari-mutuel horse racing, lawful (charitable) gambling and the state lottery. The state also receives a nominal sum from Indian tribes that operate casinos, to defray state expenses in supervising tribal-state gaming compacts. For FY 1999 more than \$150 million in gambling revenue is projected.

### Sources of State Revenue from Gambling (\$156 million in FY 1999)



The money going to state agencies is mainly from the state lottery for department expenses and the state compulsive gambling program. The money going to the Environmental Trust Fund represents a constitutionally dedicated 40% of net state lottery profits.

### Disposition of State Revenue from Gambling (\$156 million in FY 1999)

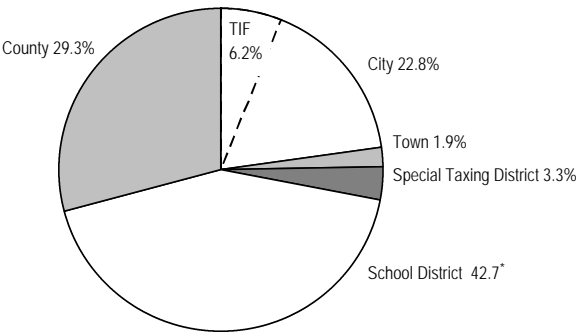


Federal law bars Minnesota from taxing Indian tribal casinos, the single largest form of gambling activity in terms of total wager. [See House Research publication "Minnesota Lottery Revenue in Fiscal Year 1997," September 1998.]

# Property Tax

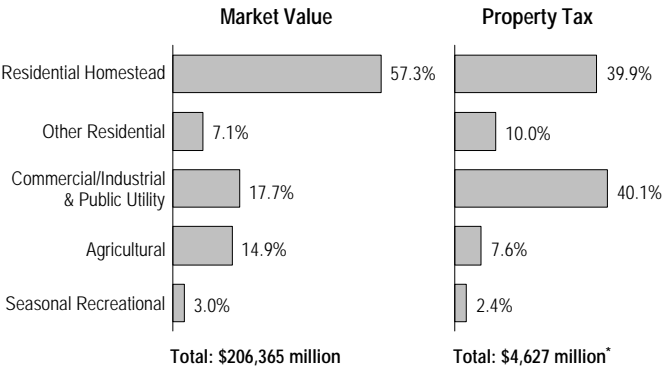
Property tax is the primary source of revenue for local governments in Minnesota. Property taxes are levied annually and payable in two installments (May 15 and Oct./Nov. 15).

**Property Tax Levy by Type of Government**  
**(\$4,642.5 million in CY 1998)**



\*School district levy excludes education homestead credit

**Shares of Market Value and Property Tax by Property Type**  
**(Taxes payable 1998)**



\*Does not include \$15 million in property tax credits

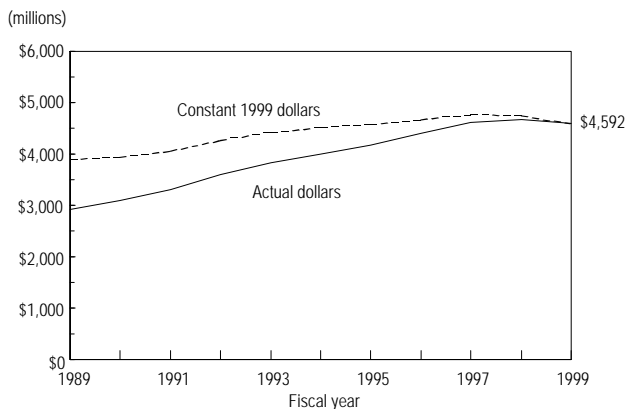
[See House Research publication “1997 Changes to Minnesota’s Property Tax System with 1998 Update,” September 1998.]

## Class Rates for Taxes Payable in 1999

Property Type	Class Rate
<b>Residential Homestead</b>	
Up to \$75,000	1.0%
Over \$75,000	1.7
<b>Residential Non-homestead</b>	
Single-unit	
Up to \$75,000	1.25
Over \$75,000	1.7
Two & three-unit	1.7
<b>Apartments (4 or more units)</b>	2.5*
<b>Agricultural Homestead</b>	
House, garage, & one acre (HGA) (same as residential homestead)	
Other value up to \$115,000	0.35
Other value over \$115,000	
Up to 320 acres	0.8
Over 320 acres	1.25
<b>Agricultural Non-homestead</b>	1.25
<b>Seasonal-Recreational-Residential</b>	
Up to \$75,000	1.25
Over \$75,000	2.2
<b>Commercial/Industrial</b>	
Up to \$150,000	2.45
Over \$150,000	3.5
<b>Public Utility</b>	3.5

\* Lower rates apply to low-income apartments and apartments in small rural cities.

## Property Tax Revenues (\$4,592 million in FY 1999)



## Property Tax Terminology

- The tax base is each property's **net tax capacity**:  

$$[\text{estimated market value}] \times [\text{class rate}] = [\text{net tax capacity}]$$
- Each local government levies a **tax rate** on all properties in its jurisdiction:  

$$[\text{levy}] \div [\text{total net tax capacity}] = [\text{tax rate}]$$
- The **property tax** on a parcel of property is computed as:  

$$[\text{net tax capacity}] \times [\text{total tax rate}] = [\text{property tax}]$$
- For homestead property, the **net property tax** is computed as:  

$$[\text{property tax}] - [\text{education homestead credit}] = [\text{net property tax}]$$

## Ten Largest Property Tax Relief Programs (\$4,855 million in FY 1999)

	Program	Recipients
\$2,652	General Education Aid	School Districts
514	Homestead & Agricultural Credit Aid (HACA)	All Taxing Jurisdictions
417	Special Education Aid	School Districts
377	Local Government Aid	Cities and Towns
329	County Highway Aid	Counties
145	Education Homestead Credit	School Districts
139	Referendum Equalization Aid	School Districts
101	Property Tax Refund-renters	Individuals
100	Municipal Street Aid	Cities and Towns
81	Property Tax Refund-homeowners	Individuals

## Property Tax Refund

Provides property tax relief to homeowners and renters whose property taxes are high relative to their incomes. If property tax exceeds a threshold percentage of income, refund equals a percentage of the tax over the threshold up to a maximum.

### Property Tax Refund (\$170 million, refunds filed 1997)

		Number of Filers	Refund Amount (millions)	Average Refund per Filer
Homeowners	Non-senior	163,498	\$53	\$323
	Senior	97,899	32	323
Renters	Non-senior	187,418	64	342
	Senior	54,210	22	397
<b>Total</b>		<b>503,025</b>	<b>\$170</b>	<b>\$338</b>

### Program Limits, Refunds Filed 1999

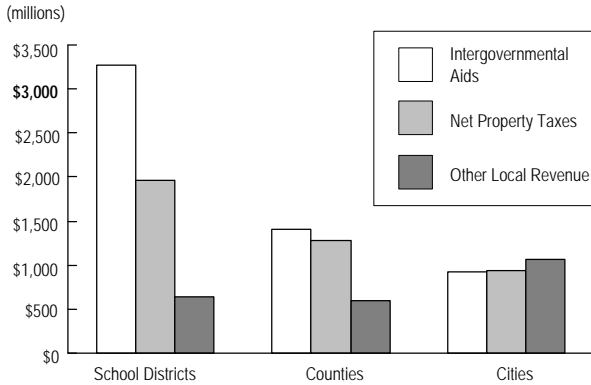
	Maximum Qualifying Income	Maximum Refund
Homeowners	\$68,680	\$490
Renters	\$40,060	\$1,140

### Special Property Tax Refund (Targeting) (\$3.8 million, refunds filed 1997)

Provides property tax relief to homeowners whose property taxes increase by more than 12% over the previous year

- Household income of taxpayer not considered
- For returns filed in 1997:
  - 48,110 returns
  - \$3.8 million total amount
  - \$79 average refund

## Local Government Revenues (\$12,100 million in CY 1996)



### Major Sources of Local Government Revenues, CY 1996

	School Districts	Counties	Cities
<b>Intergov't. Aid</b>	\$3,273.8	\$1,404.7	\$931.4
<b>Net Property Taxes (including TIF)</b>	1,957.9	1,279.1	937.7
<b>Other Local Revenue</b>			
User Fees	448.3	262.1	213.2
Interest Earnings	130.7	123.4	177.9
Special Assessments	n/a	21.9	210.4
Licenses and Permits	n/a	14.2	83.6
Fines and Forfeits	n/a	20.9	27.7
Other	215.7	161.3	353.2
<b>Total</b>	<b>6,026.4</b>	<b>3,287.5</b>	<b>2,935.2</b>

### Other Local Taxes (\$135 million)

- General Sales Tax; imposed by the following local governments:
 

<b>0.5%:</b> Minneapolis	Mankato	<b>1.0%:</b> Duluth
St. Paul	Cook County	Hermantown
Rochester	Winona	
- Lodging Tax; any city or town may impose a tax of up to 3%
- Franchise Tax
- Aggregate Production Tax (gravel tax)
- Gambling Tax (proceeds for charitable gambling regulation only)

# GOVERNMENT DEBT

## State Debt

### State Obligations Outstanding (November 1, 1998, dollars in millions)

<b>General Obligation (G.O.) Bonds</b>	\$2,379
<b>Equipment Leases</b>	61
<b>Agency Obligations:</b>	
Commissioner of Finance	\$173
Housing Finance Agency	1,990
Higher Education Facilities Authority	397
University of Minnesota	288
State University Board Revenue	
Bonds	30
Higher Education Services Office	68
Public Facilities Authority	496
Rural Finance Authority	22
Agricultural & Economic	
Development Board	40
State Armory Commission	5
<b>Total Agency Obligations</b>	<b>3,509</b>
<b>Total, All Obligations</b>	<b>\$5,949</b>
G.O. debt authorized but not yet issued:	\$740

Source: Department of Finance

### Department of Finance Debt Management Guidelines

- The general fund appropriation for debt service should not exceed 3% of nondedicated revenues. (As of June 30, 1998, the general fund appropriation for debt service was 2.8%.)
- G.O. debt of the state should not exceed 2.5% of total personal income. (June 30, 1998: 1.8%)
- Total revenue and G.O. debt of state agencies, public corporations, and the University of Minnesota should not exceed 3.5% of total personal income. (June 30, 1998: 2.9%)
- Total amount of all G.O. debt, moral obligation debt, state bond guarantees, equipment capital leases, and real estate leases should not exceed 5% of total personal income. (June 30, 1998: 3.5%)



## Local Government Debt

### Bonded Debt of Local Governments (\$9,833 million in FY 1996)

	General Obligation	Revenue	Total Indebtedness
Cities	\$4,464	\$677	\$5,141
Counties	942	54	995
Towns	34	5	39
School Districts	3,658	0	3,658
<b>Total</b>	<b>\$9,098</b>	<b>\$736</b>	<b>\$9,833</b>

Special district debt data is not available.

Source: State Auditor's reports

**General obligation bonds** are secured by the full faith and credit of the issuing governmental unit; the issuing governmental unit agrees to levy whatever property taxes are needed to pay the bonds.

**Revenue bonds** are backed by the revenues from a project or facility. They may also be secured by a general obligation pledge (**general obligation revenue bonds**).

Amounts in the local government table do not include **conduit bonds**, such as IDB (industrial development bonds) or mortgage revenue bonds. These bonds are paid by private individuals, businesses, and other organizations. The governmental unit issues the bonds to confer its federal and state tax exemptions on the private borrowers but is not legally responsible to repay the bonds. Most analysts consider conduit bonds to be obligations of the private individuals or entities who pay them.

**Twin Cities Metropolitan Regional Government Debt**  
**(\$1,352 million net outstanding as of December 31, 1998)**

**Metropolitan Council**  
**(\$621 million net outstanding general**  
**obligation bonds as of December 31, 1998)**

Sanitary Sewers	\$501
Solid Waste	2
Transit	84
Parks	31
Public Safety Radio	3
<b>Total</b>	<b>\$621</b>

**Metropolitan Airports Commission (MAC)**  
**(\$731 million net outstanding as of December 31, 1998)**

General Obligation Revenue Bonds	\$384
General Airport Revenue Bonds	<u>347</u>
<b>Total</b>	<b>\$731</b>

The Metropolitan Council and the MAC are authorized to issue debt. As of December 31, 1998, the MAC could issue \$55 million more in general obligation revenue bonds and an unlimited amount of airport revenue bonds for specified purposes. The MAC has not levied property taxes to pay general obligation revenue bonds since 1969. The Metropolitan Council may issue an unlimited amount of debt for the wastewater collection and treatment system, and as of December 31, 1998, could issue \$54.0 million more for transit fleet and facilities and the public safety radio system and \$9.3 million for grants for capital improvements in regional parks.